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SUBJECT: Austria's Declining ODA: Catching Up with Reality

REF: 07 VIENNA 2496; 04 VIENNA 868

¶1. (SBU) SUMMARY: Since 2005, Austria's debt forgiveness programs have artificially inflated its official development assistance (ODA) figures and masked recent streamlining of its aid policies. Because 2009 marks the end of debt forgiveness for Iraq, Austrian ODA is expected to fall by a third from its high in 2007. Although this drop places Austria among the stingier donors in Europe, its implementation arm, the new Austrian Development Agency, has earned a good reputation for its focused and effective programs. Austria's shrinking development aid profile is expected to have few political repercussions (besides angering NGOs), given the public's weak support for aid policy. END SUMMARY.

Note: see cable with graphics at
https://www.intelink.gov/wiki/Austrian_Development_Aid

Sharp Drop in Aid

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¶2. (U) The end of Paris Club commitments for Iraq and Nigeria will result in a sharp drop in Austria's Official Development Assistance (ODA), even though the GOA's 2009 budget maintains bilateral ODA at 2008 levels. ODA is expected to fall about 25% from 2008 levels, which follows a 14% drop between 2007 and 2008 (according to the latest OECD figures). Anton Mair, MFA's head of Development Cooperation, estimates that Austrian ODA will have fallen from a high 0.50% of GNI in 2007 to around 0.37% this year -- which moves Austria from the middle to the bottom third among the EU donors.

¶3. (SBU) COMMENT: Mair's estimate that Austrian ODA will be 0.37% of GNI in 2009 seems overly optimistic, as he assumes that a 2009 debt forgiveness program for Togo will pick up some of the slack. However, Austria's share of Togo's debt is quite small in comparison to the Iraqi debt. END COMMENT

¶4. (U) This change highlights the restrained Austrian approach to development aid more generally. Austria had been among the stingier European donors with ODA levels around 0.25% of GNI through 2004, when as part of a Paris Club agreement, Austria's debt forgiveness for Iraq caused its 2005 ODA figures to jump drastically. In 2008, about 44% of Austria's \$1,681 million in total ODA went to 44% for debt relief, 28% to multilateral institutions (EU, UN etc) and a surprising 8% to refugees and foreign students living in Austria. Thus, the GOA's discretionary aid has been small.

Targeted and Competent: The Austrian Development Agency

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¶15. (U) Recent funding issues aside, the GOA has successfully reformed its bilateral development aid efforts. Two institutions have been set up: 1) the Austrian Development Agency (ADA) in 2004 and 2) the Austrian Development Bank in 2008. The creation of the ADA fulfilled a commitment Austria made in adopting the Paris Declaration to provide aid more effectively - by moving to a more accountable and harmonized system using results-based management. Unlike USAID, ADA works solely on implementation, while policy decisions continue to be the responsibility of the Ministry of Foreign Affairs' Department of Development Cooperation. The ADA funds about EUR 100 million annually in bilateral aid projects in GOA's selected "priority" and "partner" countries:

AFRICA: Burkina Faso, Burundi, Ethiopia, Kenya, Mozambique, Namibia, Rwanda, South Africa, Tanzania, Uganda, and Zimbabwe (avg. project \$650,000).

EAST / SE EUROPE: Albania, Bosnia, Kosovo, Macedonia, Montenegro, Moldova, and Serbia (avg. project \$1,000,000).

CAUCASUS: Armenia, Azerbaijan, and Georgia (only 1 active project).

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ASIA: Bhutan and Nepal (avg. project \$350,000).

LATIN AMERICA: Nicaragua, Guatemala and El Salvador (avg. project \$450,000).

MIDDLE EAST: Gaza/West Bank (avg. project: \$175,000).

¶16. (U) Aside from emergency humanitarian aid, e.g., following the 2004 Tsunami disaster, aid projects are almost never funded outside of these countries. This selection of countries is partially a function of historical relationships and partly a reflection of GOA philosophy that Austria should target its efforts on a handful of smaller countries where its limited aid will make a relatively bigger impact. It further focuses its effort by funding projects in just six thematic areas: water and sanitation, rural development, energy, education, good governance, and private sector development, but approves projects in only three thematic areas per country. In response to pressure from the OECD's Development Assistance Committee to focus its efforts even further, GOA has recently eliminated Cape Verde, Senegal and Pakistan as partner countries and reduced the number of thematic areas to two per country. These streamlining efforts and ADA project management in general were applauded in a recent evaluation by the Global Public Policy Institute which rated the ADA among the best European donor agencies.

Filling in the Gap: Austrian Development Bank

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¶17. (U) By creating the Austrian Development Bank (OeEB) in 2008, Austria sought to expand its aid leverage in the priority countries by underwriting risky small business loans. The bank is a wholly owned subsidiary of the KontrollBank (the Export Credit Agency of Austria) with EUR100 million in guaranteed cover. The bank is authorized to use equity capital, as well as subordinated and

performance-based debt, to support private sector projects in developing countries. In practice, the ADA refers projects to the OeEB that don't meet its criteria for funding and are too risky for the KontrollBank. The bank's first move in June was to invest \$56 million of equity capital in the Luxembourg-based "European Fund for Southeast Europe." In December, the bank signed a \$24 million credit line for the ProCredit Bank Georgia for micro, small and medium-size enterprises and a \$20 million line for the Central American Bank for Economic Integration of for medium and long-term private sector projects. It is too soon to evaluate the bank's effectiveness.

Reaction: NGOs

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¶ 8. (U) As elsewhere in Europe, Austrian NGOs have historically been important players on the bilateral development scene and feared the ADA and the OeEB would add a new layer of bureaucracy that would consume more of the limited development budget. The new bureaucracy notwithstanding, the NGOs are still involved in a majority of the bilateral projects, receiving grants of up to \$100,000 per project. This year's sudden drop of ODA has compounded the NGO community's view that there was 'never enough' ODA. According to Ruth Picker from the Institute for Social Research and Analysis, NGOS are quite critical of GOA now that it is clear that Austria will fall far short of its international commitment to raise ODA to 0.51 % of GNI by 2010 and to 0.7% by ¶ 2015.

Reaction: Political Parties

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¶ 9. (U) NGO concerns are shared by the two left-of-center political parties, the Social Democrats (SPO) and the Greens. SPO spokeswoman Petra Bayr regrets the recent drop but claims that Austria still has long-term plans to reach the 0.5 and 0.7% goals, while opposition Green Party spokesman Ulrike Lunacek has criticized the GOA for trying to "steal away" from its UN and EU commitments. By contrast the far-right opposition parties (the FPO, and to a lesser extent the BZO) are openly critical of both debt forgiveness and the ODA funds given to

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multilateral organizations because they are beyond Austrian control. The conservative People's Party (whose representatives in the GoA are in charge of most funding) defends the current path given the world financial crisis and its impact on the GOA's budget.

COMMENT

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¶ 10. (SBU) Since 2005, Austria has taken credit for increasing its ODA expenditures when that increase was more of an accounting anomaly. More than in any other country, debt forgiveness has dominated Austria's ODA statistics (the next closest one is Italy at 20% of ODA). Looking behind the numbers highlights the restrictive foreign affairs and budgeting environment in Austria. As Professor Kunibert Raffer (a leading expert on development policy) pointed out, there is very thin public support in Austria for development aid specifically and foreign operations generally. END COMMENT.

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